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E.O. 12958: N/A

TAGS: [OIIP](#) [KMDR](#) [KPAO](#) [PGOV](#) [PINR](#) [ECON](#) [ELAB](#) [JA](#)

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 09/17/08

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- (1) Japan fears spillover effect of Lehman's failure

ASAHI (Page 3) (Slightly abridged)  
September 17, 2008

The collapse of Lehman Brothers, a major U.S. securities house, may have adverse spillover effects not only on the monetary market but even on many other areas in Japan. Economic woes in the U.S. will push the Japanese economy into a more serious recessionary phase. A political vacuum could make it impossible for Japan to quickly come up economic stimulus measures. The ruling coalition expects to hold a general election under the effect of the party being buoyed up in the aftermath of the Liberal Democratic Party's presidential election, but this strategy might also be undermined by Lehman's failure.

Leading banks calculate losses; some companies worry about fund-raising

After learning the news of Lehman Brothers' failure on Sept. 15, a Japanese leading financial institution operating in New York promptly began collecting information on its transactions with Lehman. After examining the contents of its deals with Lehman, the institution informed its business partner of the amount that it should bear, but the no reply has come yet.

On the 16th, major banks were pressed to report their losses in dealings with Lehman. The total amount of these banks' loan claims on Lehman is approximately 210 billion yen, some of which are expected to become unrecoverable.

Mizuho Trust & Banking announced that about 11.8 billion yen worth of debt claims have turned into bad loans. The Mizuho Financial Group expects to suffer a loss of about 20 billion yen. The Sumitomo Mitsui Financial Group will also post a loss of about 10 billion yen, a portion that is not covered with collaterals.

The spillover effects of the Lehman failure will also spread to local financial institutions. According to Daiwa Securities SMBC Co., Lehman issued yen-denominated Samurai bonds worth 195 billion yen, many of which were purchased by local banks. In case of default on these bonds, its scale will be as large as the one on samurai bonds issued by the Argentine government in 2001.

More than 20 banks announced the state of their holdings of bonds issued by Lehman, such as 7.1 billion yen worth of bonds held by the Kiyo Holdings Inc. and 3.9 billion yen by the Fukuoka Financial Group. If redeeming the bonds becomes difficult, "the banks will

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find it difficult to make up for the losses incurred just before Sept. 30 midyear settlement of accounts," said Toshiyasu Ohashi, a chief analysis on credits at Daiwa Securities SMBC. A local bank employee commented: "It was inconceivable for this big leading financial institution to file for bankruptcy protection."

Concerns are also growing among companies that have procured funds from Lehman. The Windsor Hotel Toya Resort & Spa, which was used as the hall of the Hokkaido Toyako Summit this summer, planned to open a condominium-type super-deluxe hotel in 2011, with about 20 billion yen to be invested by SECOM General Insurance Co., Lehman, and other companies. But the plan is now "stuck for funds," as a management company executive said.

Anrakutei Co., a barbecue restaurant chain, has borrowed about 1.7 billion yen from Lehman with share warrants as a mortgage. It plans to renew the debt on the 29th. The company issued this comment last night, in an effort to dispel public concerns: "We concluded a contract on the 12th."

Lehman Brothers Japan, based in Roppongi Hills, Tokyo, does business intended mainly for corporations. The company provided moving strike convertible bonds (MSCB) to Livedoor Co. for its acquisition of Nippon Broadcasting System Inc. in 2005.

The MSCB product tends to bring down stock prices and have a major impact on other shareholders, so some see MSCB as a problem item. A foreign securities company employee said: "Lehman Brothers Japan might have been trying to survive by handling services that cannot be handled by other leading companies, for instance, such unique financial products as MSCB and investment in real estate."

Lehman also dealt with a variety of derivatives. There are many companies that have purchased derivatives with the aim of preventing such risks as an interest rate change and default. Given this, more companies might be pressed to unexpectedly report losses from now.

Ruling camp eagerly trying to avoid negative effect

Economic ministers and Bank of Japan Governor Masaaki Shirakawa urgently met yesterday morning after a cabinet meeting to discuss how to respond to the failure of Lehman Brothers. Prime Minister Fukuda, in an effort to dismiss public anxieties, emphasized to reporters last evening: "The impact (of Lehman's failure) will be

rather small. We will have to take action in a calm manner."

The ruling coalition has been eagerly trying to dismiss any anxieties about a political vacuum.

Secretary General Taro Aso stressed in a meeting at party headquarters yesterday: "If we depend only on market mechanisms, there will surely be negative effects. We are not allowed to leave the situation intact. First, we must take measures to pump up the economy and then make efforts to reconstruct the nation's finances."

State Minister for Economic and Fiscal Policy Yosano, a candidate for the LDP presidential election, also emphasized: "If we think it is improper to continue canvassing tours, we should decide to cancel them." Policy Research Council Chairman Kosuke Hori called in policymaking officials from all LDP factions yesterday and said: "Each presidential candidate does not fully understand the problem."

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I would like the candidates to reflect their views on this issue in their campaign speeches."

The presidential candidates and party executives are concerned about the impact of the Lehman failure on the ruling camp's strategy eyeing the dissolution of the House of Representatives for a snap election.

The ruling coalition prepare this strategy: Draw public attention to the LDP presidential race, submit a supplementary budget bill that includes expenses to fund economic pump-priming measures, and dissolve the Lower House when support for the new prime minister is high.

But if the ruling side focuses only on this election strategy without making efforts to stabilize the financial market, the ruling camp will be certainly criticized as paying attention not to public interests but to party interests. Meanwhile, if Lower House dissolution is delayed to sometime after the supplementary budget bill clears the Diet, the ruling camp may be exposed to attacks from the opposition camp in the upcoming Diet session.

The Democratic Party of Japan has begun to grill the government over this issue. Azuma Koshiishi, chairman of the DPJ caucus in the House of Councillors, said: "Under this situation, is it acceptable that the LDP is devoting itself to the party presidential election campaign, which is just like a festival show?"

The collapse of Lehman is also likely to affect policy debate. The government and the ruling camp have decided to compile an extra budget worth 1.8 trillion yen, but Prime Minister has insisted on maintaining the fiscal reconstruction policy without issuing deficit-covering bonds. This policy has been taken since the Koizumi administration. But calls are likely to grow louder in the ruling camp for measures to buoy up the economy while pushing the fiscal reconstruction policy backward.

In the presidential election campaign, Aso has said that he would not hesitate to aggressively disburse government funds, saying: "I will give priority to boosting the economy." DPJ President Ozawa also expressed a willingness to make the people feel at ease with fiscal disbursements. A senior Finance Ministry official said: "The ruling and opposition camps might compete over economic stimulus measures."

But pork-barrel-type economic measures might lead to cooling down the economy as more deficit-covering bonds are issued and as interest rates eventually rise. Now that a slowdown of exports is concerned due to economic deterioration in the U.S. and Europe, a market player is overheard saying: "Tax cuts and fiscal disbursements are expected to have just limited effects."

(2) FSA officials mulled over response to Lehman failure by giving up their holiday

NIKKEI (Page 4) (Abridged slightly)

September 17, 2008

Talks to bail out Lehman Brothers Holding Inc. involving U.S. authorities ended in failure on the morning of Sept. 15, Japan time, and the Financial Services Agency (FSA) sensed that the prestigious investment bank would collapse. This forced principal FSA officials,

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including Supervisory Bureau Director General Katsunori Mikuniya, to busy themselves searching for countermeasures by giving up their holiday. Securities Business Division Director Muneo Morita, for instance, swiftly decided to cancel his attendance at an international conference of securities business supervisory officials.

The agency's main concern was how to prevent the assets held by customers of Lehman Brothers Japan Inc. from flowing out of the country after the firm collapsed.

FSA officials closely checked similar past cases supervised by overseas authorities, such as Britain's Financial Services Authority.

The agency took steps in rapid succession after it learned the news shortly after noon of Sept. 15 that Lehman had filed for Chapter 11 protection. The agency issued an order at 15:00 Sept. 15 instructing Lehman Brothers Japan Inc. to retain certain assets within Japan and another order at 21:00 ordering it to halt operations for 12 days. The agency had been informed by the Japan unit of the U.S. securities house it would file for bankruptcy protection under the Civil Rehabilitation Law as early as Sept. 16. The FSA still took every possible means to protect assets held by Lehman Brothers' customers partly in the form of administrative penalty. "We used all ammunition at our disposal," an FSA official said late at night, looking exhausted.

Planning and financial department executives of Mizuho Corp., which has invested 130 billion yen in Merrill Lynch & Co., Inc., also assembled at their Tokyo head office around noon Sept. 15. One of the members said: "Bank of America's acquisition of Merrill Lynch is likely to benefit our company." Officials of other major banks also analyzed the situation on Sept. 15, a Japanese holiday. Financial officers of still other banks worked through the night projecting their losses and calculating loans to Lehman Brothers.

"We never expected that Lehman Brothers would go belly up so fast," an investment department official of Asahi Mutual Life Insurance Co. said in dismay. Asahi Mutual Life purchased Lehman bonds worth 10 billion yen in 2004. The amount is the largest among life insurance companies in Japan. The company began looking for the timing to sell Lehman bonds in August, but it could not do so due to tumbling bond prices.

In the wake of Lehman's bankruptcy, the Tokyo Stock Exchange (TSE) and Japan Securities Clearing Corp. (JSCC) made preparations throughout the night. Lehman Japan, which became the top securities firm in trading in fiscal 2007, had a strong presence in the Japanese markets. There were conflicting reports and the company's future was unclear.

At 7:30 Sept. 16, shortly before Lehman Japan's filing for bankruptcy protection became public, the TSE ordered the company to halt securities and derivatives trading activities. The JSCC, too, was confident to settle outstanding trading activities within the deposits from Lehman. A senior TSE official still underlined the need to end the closed trade by minimizing Lehman's impact on the markets.

At 8:30, the Bank of Japan released Governor Masaaki Shirakawa's statement reading: "The bank will endeavor to ensure smooth fund

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settlements and the stability of financial markets while keeping a close eye on the environment surrounding U.S. financial institutions

and its impact."

The exchange market reacted to Shirakawa's three-line statement to a certain extent, with a foreign bank dealer saying, "Knowing that the BOJ is watching the markets, I momentarily hesitated to take a dollar-selling/yen-buying step."

At 9:06, the Bank of Japan injected 1.5 trillion yen into money markets. A call loan dealer predicted: "Many regional banks are cautious about operating funds in short-run markets today. The Bank of Japan would have to provide more funds. There may be an additional injection of money,"

The Bank of Japan added another 1 trillion yen to money markets at 12:50 and policy interest rates that had been relatively high finally settled near the target of 0.5 PERCENT .

Lehman Brothers Japan president offered apology at night

Following the collapse of its parent firm in the United States, Lehman Brothers Japan Inc. filed for bankruptcy protection under the Civil Rehabilitation Law on the morning of Sept. 16. Holding liabilities totaling 3.4314 billion yen, Lehman Japan became the second-largest postwar corporate failure following the 4.52 trillion yen left by Kyoei Life Insurance Co. (currently Gibraltar Life Insurance), which failed in 2000.

President Akio Katsuragi held a press conference in Tokyo on the night of Sept. 16 in which he offered an apology, saying: "Unable to catch up with the rapid changes in the markets, we have caused tremendous trouble to our customers and the markets."

What will become of Lehman Japan? President Katsuragi revealed a plan to search for sponsors while holding talks with the parent company, saying: "We want to speedily produce a revival plan and start looking for sponsors."

The company had 1,300 employees, including many experts in stock, bond, real estate, and investment bank. It was also scheduled to hire slightly less than 20 new employees next spring. Katsuragi indicated that the company would consider the handling of the new employees in the days ahead.

The Lehman issue would have a significant impact not only on the financial and capital markets but also on the job market. Fallouts of the "Lehman shock" are likely to spread to a wide range of areas.

(3) Editorial: Decisive measures urged to prevent financial crisis that originated in U.S. from spreading

NIKKEI (Page 2) (Full)  
September 17, 2008

A situation that might only occur once in 50 or 100 years is about to occur in the U.S. as former Federal Reserve Board Chairman Greenspan put it. Of the four major securities firms in the U.S., one of which has collapsed and another has been bought out. The largest insurance company also is in trouble. All of these events occurred while Japan was enjoying a three-day holiday weekend.

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If the financial crisis in the U.S. continues without control, the global economy could be affected immeasurably. US monetary authorities should look into decisive measures, including the drastic use of public money, instead of resorting to stopgap measures each time a problem occurs.

Prevent expansion for bailout measures from spreading

Lehman Brothers, the fourth largest securities house in the U.S., whose management had been in bad shape, has filed for bankruptcy because the U.S. government refused to bail it out. The government in effect took bail-out measures when a management crisis involving Bear Sterns and two mortgage financing companies surfaced this year.

The U.S. government has decided not to bail out Lehman Brothers out of concern that if it bails out that company, leading companies would think that the government would always bail out failed financial firms, if their size were big enough, bringing about a lack of management discipline among them.

Compared with the situation in March, when Bear Sterns ran into financial difficulty, concern about banks facing bankruptcy all of a sudden due to cash-flow problems has weakened. This is because the FRB has set up a system of directly injecting funds into battered securities companies. This time, the U.S. government has decided to strengthen this system and allow the company to deposit high-risk negotiable securities, such as stocks, as security.

The government has tolerated the bankruptcy of Lehman Brothers, after taking those measures. However, some creditors or business partners of the company could suffer a major blow. Merrill Lynch, the third largest company in the industry, has been integrated into the Bank of America, a major U.S. bank, as a kind of bailout measure. Chances are that other securities houses or banks are facing management instability.

The major focus for the time being is on how the American International Group (AIG), which is already in financial trouble, can procure funds. If AIG, which has many customers not only in the U.S. but also all over the world, collapses, the impact would be immense. The financial crisis the U.S. is now facing reminds us of the dismal state of the financial industry in Japan around November 1997, when Sanyo Securities and Hokkaido Takushoku Bank failed and Yamaichi Securities voluntarily went out of business.

At the time, various foreign countries, starting with the U.S., criticized Japan, noting that a Japan-induced global financial crisis would occur. In the end, it took five to six years for Japan to settle its non-performing loan issue. If the U.S. financial crisis becomes drawn out, its impact would be far greater than the impact of Japan's financial crisis at the time. U.S. monetary officials should make an all-out effort to settle the crisis so that a global financial crisis originating in the U.S. will not occur.

The root-cause of the problem is to be found in the fact that U.S. monetary officials remained reluctant to take proactive measures until the crisis approached.

The U.S. Treasury Department has urged embattled banks and securities firms to make a voluntary effort. However, it has neglected to make a quick response to the failure of Lehman Brothers. As a result, the company was unable to procure funds on

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its own. There is a possibility of similar cases continuing.

The government refusal to bail out Lehman Brothers may help stop prevent banks from relying on the government. However, it appears that leaving the matter like this to the private sector has just about reached its limit. The U.S. government should take the lead in creating a bailout mechanism, including the establishment of an organ tasked with non-performing loans, instead of putting off the settlement of the issue.

It is not someone else's misfortune

Japan cannot afford to rest assured, regarding the Lehman Brothers' collapse as someone else's misfortune.

Lehman Brothers' major creditors include many Japanese banks. Many banks are also the firm's business partners regarding its derivatives. Monetary officials should take extreme care so that the collapse of the company will not cause turmoil to Japan's money market.

A financially-strapped AIG has actively sold insurance products, such as cancer insurance products, through its Japanese subsidiary. It is now trying to procure funds from private-sector banks in an effort to reconstruct its management. It should work together with U.S. monetary authorities and consider seeking indirect assistance,

if necessary.

What is more worrisome than the problems individual financial institutions are facing is the adverse effect of the U.S.-induced financial crisis on the global economy. The housing industry is in a slump in the U.S. Industrial output and the employment situation are also deteriorating. There is a strong likelihood that U.S.-bound exports will suffer a further blow.

The financial crisis originating in the U.S. has repercussions for the financial and real estate industries in Japan. There is fear that its adverse effect would widely affect export-oriented manufacturers.

Unlike the U.S., the Japanese economy itself is not beset with issues that require adjustment over the short term. However, it is necessary to carefully monitor what effect the U.S.-induced financial crisis will have on the Japanese economy.

(4) DPJ makes first move for political realignment

ASAHI (Page 4) (Full)  
September 17, 2008

As if waiting for a respite from the recent flurry of festivity in the ruling Liberal Democratic Party (LDP), Ichiro Ozawa, president of the main opposition Democratic Party of Japan (DPJ), has now again moved into action. Ozawa is now pushing ahead with a merger between his party and the People's New Party (PNP), while brandishing the threat of switching to another electoral district, from which he will run. He plans to field high-profile candidates for the next House of Representatives election.

Ozawa takes initiative in DPJ-PNP merger

DPJ Secretary General Yukio Hatoyama yesterday expressed the high  
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expectations of a merger between the DPJ and PNP, saying to reporters: "It's good to be big in order to give more momentum to the election."

Hatoyama has a memory of the merger of his party and the now-defunct Ozawa-led Liberal Party, which allowed the new party to leap ahead in the 2003 Lower House election. Since the PNP is strongly supported by voters engaged in the postal services, the DPJ-PNP merger would generate a significant effect. As it stands, there is a possibility of the DPJ becoming the largest party in the Lower House as well.

Ozawa is the person who suggested the merger plan. He told a press meeting on Sept. 15: "A merger is one option." Ozawa and his PNP counterpart Tamiyuki Watanuki yesterday held a signing ceremony of an agreement on policy platforms for their parties. Although Ozawa did not sound Watanuki out about the merger plan, he reportedly whispered to Watanuki while shaking hands: "Let's work together, again."

There is a sense of alarm among PNP members. A senior member said: "It is necessary for us to make our position clear. Unless we win the next election, it will be too late to fundamentally review postal privatization." Some PNP members are, however, strongly opposed to the merger plan. After his meeting with Ozawa, Watanuki placed on hold his decision, just saying: "Once I formally receive the proposal, I will respond after hearing views of my fellow members." DPJ and PNP lawmakers favoring the merger plan aim to demonstrate the unity of opposition parties, reaching an agreement on Sept. 22, when LDP Secretary General Aso Taro will be elected as the new LDP president.

The DPJ expects not only to increase its Lower House seats but also to win over independent lawmakers, who have close ties with the ruling camp.

New Party Daichi leader Muneo Suzuki praised Ozawa at a meeting in Sapporo on Sept. 11, saying: "Hearing Mr. Ozawa's enthusiastic

speech, I felt that I was drawn toward the DPJ." The DPJ has called on Takeo Hiranuma, an independent lawmaker, who has looked for a possibility of forming a new party, for election cooperation.

The DPJ appears to be getting the edge over other parties, by taking the initiative in possible "political realignment," which will likely to move into full swing.

Psychological strategy of sending "assassin" candidates

The DPJ plans to send "assassin candidates" to electoral districts for which the ruling parties are expected to file powerful candidates.

Ozawa met yesterday with Watanuki in the Diet building. After that, he moved to DPJ headquarters later in the day. He then held a joint press conference with New Party Nippon leader Yasuo Tanaka. Tanaka said meaningfully: "The dream I have is to confound conventional wisdom. There will be surprises, including to myself. The election will be my last political battle."

There has been a rumor that Upper House member Tanaka, who has a ep-seated belief in Ozawa, may run in the next Lower House election. All the more because Tanaka said that there would be "surprises,"

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some political observers have taken his remark as his indication of running in the general election.

Eriko Fukuda, hepatitis C infected Kyushu plaintiff, has firmed up her intention to run as a DPJ candidate from the Nagasaki No. 2 district, which is former Defense Minister Fumio Kyuma's home constituency. Yesterday Ozawa asked local TV announcer Takako Nagae, who is well-known in Ehime Prefecture, to run from the Ehime No. 1 district as a DPJ candidate against former Chief Cabinet Secretary Yasuhisa Shiozaki.

The DPJ announced on Sept. 12 a list of 187 candidates as its first picks for the 300 single-seat constituencies. The largest opposition party, however, has yet to file candidates for the districts from which five LDP presidential candidates will run and the Tokyo No. 12 district, which is New Komeito leader Akihiro Ota's home constituency. The question is for which constituencies the DPJ will send high-profile "assassin candidates," including Ozawa. The psychological warfare will continue between the DPJ and the ruling coalition.

SCHIEFFER